

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF TEXAS
MARSHALL DIVISION

ERICSSON INC., ET AL

DOCKET NO. 2:14CV667

VS.

JANUARY 8, 2015

9:06 A.M.

TCL COMMUNICATION
TECHNOLOGY HOLDINGS
LTD., ET AL

MARSHALL, TEXAS

VOLUME 1 OF 1, PAGES 1 THROUGH 60
REPORTER'S TRANSCRIPT OF MOTION HEARING

BEFORE THE HONORABLE ROY S. PAYNE
UNITED STATES MAGISTRATE JUDGE

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1 (OPEN COURT, ALL PARTIES PRESENT.)

2 THE COURT: For the record, we're here for the
3 motion hearing in *Ericsson, et al, versus TCL*
4 *Communication Technology Holdings, et al*, which is Case
5 No. 2:14-667 on our docket.

09:06AM

6 Would counsel state their appearances for the
7 record.

8 MR. STEVENSON: Good morning, your Honor. Ted
9 Stevenson, Laurie Fitzgerald, Nick Mathews, and Warren
10 Lipschitz for Plaintiff Ericsson. Ready to proceed.

09:06AM

11 THE COURT: All right. Thank you,
12 Mr. Stevenson.

13 MR. FINDLAY: Good morning, your Honor. Eric
14 Findlay, Steve Korniczky, and Martin Bader for the TCL
15 defendants. We are ready to proceed.

09:07AM

16 THE COURT: All right. Thank you,
17 Mr. Findlay.

18 I understand that counsel have resolved the
19 issues regarding the protective order. And does that
20 mean that an agreed protective order will be submitted?

09:07AM

21 MR. FINDLAY: Yes, your Honor. We will get to
22 that in the next day or so, I believe.

23 MS. FITZGERALD: Yes.

24 THE COURT: Okay. Good. In that case, I
25 think that the logical place to start is with the Motion

09:07AM

1 to Transfer. And, so, I guess -- I think, frankly, I'd
2 like to start with counsel for the defendant on that --
3 I'm sorry -- counsel for the plaintiff on that.

4 Whoever wants to speak to that.

09:07AM

5 MR. STEVENSON: Yes, your Honor. Thank you,
6 your Honor.

7 THE COURT: And, Mr. Stevenson, I've had an
8 opportunity to review the briefs on that; and I'm
9 concerned about the implications of the ruling by

09:08AM

10 Judge Selna that was issued after the briefing on the
11 motion in this case. I know there has been some
12 reference to it since then, but that's where I'd like you
13 to start.

14 MR. STEVENSON: Is that the ruling on no
15 certification of interlocutory appeal?

09:08AM

16 THE COURT: Well, I think that was part of it;
17 but the part of it that concerns me the most is the fact
18 that Judge Selna has ruled on whether or not the
19 California case is the first-filed action --

09:08AM

20 MR. STEVENSON: Yes.

21 THE COURT: -- with respect to patent
22 infringement allegations.

23 MR. STEVENSON: Yes. Yes, I will start there,
24 your Honor. And, really, if you consider the totality of
25 what we have here, there's basically three buckets of

09:08AM

1 claims. There's the TCL patent claims, the Ericsson
2 patent claims, and then the FRAND claims. And when I say
3 "the FRAND claims," the FRAND claims really amount to a
4 group of claims based on a breach of the -- alleged
5 breach of the FRAND obligation that are sounding in
6 contract, fraud, promissory estoppel, et cetera.

09:09AM

7 With regard to the TCL patent claims, our
8 position is they're first filed in California and once
9 the cloud of subject matter jurisdiction was at least in
10 Judge Selna's mind resolved, we have moved to dismiss our
11 declaratory judgment here of non-infringement and
12 invalidity as to TCL claims and we're happy to have those
13 proceed in TCL's choice of forum.

09:09AM

14 With regard to the Ericsson patent claims,
15 those are clearly first filed in this district; and our
16 view would be that first-filed claims in this district,
17 we should go forward in our choice of forum.

09:09AM

18 And that just leaves the last bucket, which
19 are what I'll call "the FRAND claims." And the breach of
20 FRAND claims are different between California and Texas;
21 and as a result, because the FRAND claims are different
22 in the two venues, we think the FRAND claims can and
23 should go forward in this venue.

09:10AM

24 And I have some more detail; but if your Honor
25 has questions, I don't want to go too far without making

09:10AM

1 sure I've answered what you want to hear from me.

2 THE COURT: Well, what I want you to address
3 is the effect of Judge Selna's finding that the
4 California action was first filed.

09:10AM

5 MR. STEVENSON: Okay. I can. And I've got a
6 slide that can help focus the discussion.

09:11AM

7 The California case was first filed and -- let
8 me go through the timeline, actually, first so we can see
9 what's first filed because what ends up being important
10 in the first-filed inquiry is not just which overall case
11 is filed first but which claims were filed first. And
12 the *BridgeLux versus Cree* case which we cited in our
13 briefs, which is an Eastern District case written by
14 Judge Clark, indicates that the way to do the analysis is
15 to look at segregable groups of claims when you're
16 looking at what's first filed.

09:11AM

17 And, so, applying that analysis here, I'd like
18 to go through a timeline to show your Honor in which
19 order various claims were filed in California versus
20 Texas so we can see what is first filed. Because
21 Judge Selna basically said his case was filed first, and
22 nobody disagrees with that. That's an obvious
23 chronological fact. But more specifically, different
24 groups of claims were filed in different orders in

09:11AM

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25 different jurisdictions. So, I have this timeline slide;

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1 and then the next slide is essentially a summary of what
2 is pending and what is first and what is second in
3 different jurisdictions. And hopefully this will answer
4 what your Honor wants to hear and give you some detail on
5 that.

09:12AM

6 What happened first was TCL filed a lawsuit in
7 the Central District of California for breach of FRAND,
8 and that suit was filed in March of this year. That suit
9 was merely a -- essentially what I'll call a
10 contract/fraud/estoppel/DJ-type suit. There weren't any
11 patent claims in it. It was based on diversity of
12 jurisdiction; and as TCL later admitted, that was a
13 flawed jurisdictional basis because there wasn't
14 diversity.

09:12AM

15 Ericsson moved to dismiss for lack of subject
16 matter jurisdiction; and because there was a cloud of
17 subject matter jurisdiction over that case, Ericsson
18 filed, in June, a declaratory judgment that it hadn't
19 committed a FRAND violation on a worldwide basis. And

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20 Ericsson also asserted two patents, the '506 and the
21 '556, which are essential patents to the cellular
22 telecommunication standard.

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23 So, at this juncture, TCL had a case that it
24 had filed in California with flawed subject matter
25 jurisdiction where it was seeking a breach of FRAND

1 adjudication for what TCL later clarified is we believe
2 just the United States. Ericsson is first filed on its
3 '556 and '506 essential patents in this district and has
4 filed a declaratory judgment for worldwide FRAND
09:13AM 5 adjudication in this district, which is first filed,
6 seeking that type of relief.

7 What TCL then did in California is after the
8 filing of that, it amended its complaint and it asserted
9 two of its own patents, the '718 and the '340. The
09:14AM 10 reason it did that is to obtain federal subject matter
11 jurisdiction. The big question then became -- well, we
12 actually and TCL also asserted a DJ of the two patents
13 Ericsson asserted here. So, TCL's DJ on Ericsson '556
14 and '506, two essential patents, is a second-filed DJ in
09:14AM 15 California. And, again, that's not in dispute. That's
16 clear from the chronology. And Judge Selna's, I think,
17 high-level statement that his case is filed first doesn't
18 address this more granular point.

19 The reason TCL did this was to obtain federal
09:14AM 20 subject matter jurisdiction. They needed a federal
21 question out there because they didn't have diversity as
22 federal subject matter jurisdiction for their FRAND case.
23 And the big controversy between the parties became does
24 this amendment relate back. In other words, can TCL say,
09:14AM 25 "We relate back. We're really first filed"? Ericsson

1 took the position, "No, it doesn't relate back"; and TCL
2 said it did. And there was a lot of briefing that went
3 back and forth with the number of cases. It's a very
4 cloudy and murky area.

09:15AM

5 And Judge Selna says it does relate back -- in
6 other words, that amendment for federal subject matter
7 jurisdiction does relate back -- therefore making the
8 breach of FRAND in the U.S. claim that TCL filed the
9 first-filed FRAND claim. And that was, I think,

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10 Judge Selna's ruling. And we asked Judge Selna to
11 certify an interlocutory appeal of that, and he declined
12 to allow us to do that.

09:15AM

13 After that, Ericsson amended to assert a
14 declaratory judgment of the '718 and '340 patents; and
15 after the motion to dismiss was denied, which is on the
16 timeline, we then requested leave to drop our DJ of the
17 '718 and '340 patents. The reason being, once

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18 Judge Selna essentially confirmed that he was going to
19 allow an amendment and allow those cases -- the TCL
20 patents to be brought out in California, at that point
21 our position was that's their choice of forum, it's their
22 patents, they can go ahead out there, and we're not going
23 to try to have a DJ on those patents out here. That
24 motion by Ericsson to dismiss on those two patents is

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25 currently pending before the court. TCL opposes.

1 Subsequent to that, Ericsson added, by
2 amendment that the court hasn't ruled on yet, five
3 implementation patents. And what I mean by
4 "implementation patents," your Honor, is there's two
09:16AM 5 kinds of patents at issue in this case. Some are
6 essential patents. Essential patents are patents that
7 must be infringed to comply with the telecommunication
8 standard, such as 4G and 3G or 2G. Implementation
9 patents are other patents that aren't essential.

09:16AM 10 So, the importance of that distinction is
11 essential patents are subject to Ericsson's FRAND
12 commitment; implementation patents are not. So, what we
13 have is a request to add five implementation patents.

14 So, with that timeline, here's a summary of
09:17AM 15 where I think we are on first and second filed in the two
16 cases.

17 Let's start with Central District of
18 California. Out in Central District of California, TCL
19 has a claim for breach of FRAND. And when I say "breach
09:17AM 20 of FRAND," it's really based on the operative allegation
21 that Ericsson didn't follow through with its commitment
22 it made to ETSI, which is a written commitment that
23 formed a contract of which TCL is a third-party
24 beneficiary. Their allegation is that Ericsson didn't
09:17AM 25 follow through with that contract by offering TCL a

1 royalty rate that it believes is FRAND and other terms
2 that it believes are FRAND. And that breach of
3 obligation then is asserted by TCL in a number of
4 different claims, such as breach of contract, promissory
09:18AM 5 estoppel, fraud, and they also have a declaratory
6 judgment request to set a rate.

7 But their request for relief is, as we
8 understand it, not worldwide and that's what's very
9 important here and that's why I put "U.S." next to it.

09:18AM 10 And I use "U.S." as a monitor, as a placeholder. I don't
11 know that it's necessarily just limited to the U.S. But
12 what came up in California and the reason I put that
13 there is we have a worldwide licensing dispute with TCL.

14 Ericsson is a holder of thousands of essential patents
09:18AM 15 across the world. It invests \$5 billion a year in
16 research and development, and we've had a seven-year
17 worldwide dispute over licensing going on with TCL. And
18 what Ericsson really wants out of this case, candidly, is
19 it to end with a license agreement with TCL. We don't
09:18AM 20 want to be pursuing patent infringement trials all over
21 the world. But, unfortunately, we can't get to that
22 point.

23 What happened in California was we made the
24 argument to Judge Selna if TCL isn't going to agree to be
09:19AM 25 bound by the outcome of this trial, then they shouldn't

1 be able to go forward with a declaratory judgment.

2 And Judge Selna asked counsel for TCL, "Is TCL
3 going to be bound?"

4 And they said, "Well, yes, we are."

09:19AM

5 Subsequent to that, as we attempted to clarify
6 it, our position was, well, we're being -- we're agreeing
7 to be bound by a worldwide resolution; and TCL said, "No,
8 we're not going to commit that the resolution of this
9 case is going to be a worldwide license to Ericsson's

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10 patents. It may be U.S., it may be more, but we aren't
11 committing out in California that the result of the
12 California case will be a worldwide license." And that's
13 a very important point here because I think the -- all we
14 know is the California case, TCL is going to be bound to
15 a U.S. adjudication plus maybe more, but we don't know
16 what that is.

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17 So, that's Claim No. 1 that is pending out
18 there; and I gave that long description of the claim
19 because it's going to be very important because
20 Ericsson's claim here is different on FRAND. And I'm
21 going to get to that in a minute.

09:20AM

22 The second claim pending out in California, or
23 group of claims, is infringement of the two TCL patents
24 '718 and '340; and that's first filed out there. No
25 question about it.

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1 The third claim pending in California is TCL's
2 declaratory judgment of non-infringement and invalidity

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1 unwilling licensee.

2 The difference is going to be at the end of
3 this we're requesting your Honor grant a worldwide
4 adjudication -- or an adjudication of Ericsson's
09:22AM 5 worldwide licensing offer to TCL. We have one rate, a
6 blended rate for the entire world. And that is going to
7 resolve, in our view, hopefully, the worldwide dispute
8 between the parties.

9 THE COURT: Does the claim asserted by TCL in
09:22AM 10 California relating to FRAND, does it expressly relate
11 only to the United States?

12 MR. STEVENSON: No. It says breach of
13 contract, breach of obligation. But in subsequent
14 correspondence where TCL is essentially explaining what
09:23AM 15 its -- what the scope of its obligation to be bound is,
16 TCL has made it clear -- and I've got a letter from them,
17 and it's in the record. It's Exhibit 5 to Ericsson's
18 response, and I'll put it on the Elmo.

19 This is a letter that was sent by counsel for
09:23AM 20 TCL to Ericsson, and in the second paragraph (reading) we
21 do not necessarily agree that having the California court
22 determine FRAND rates and/or FRAND terms on a worldwide
23 basis is appropriate or that Judge Selna would agree to
24 decide these issues on a worldwide basis regardless of
09:24AM 25 any stipulation by the parties.

1 This letter arose in the context of us trying
2 to work on the scheduling for the California case. And
3 we have been trying to meet and confer with counsel. We
4 don't even have a trial date yet in California, but we do
5 have an upcoming scheduling conference. We have been
6 working on Rule 26, and we have been repeatedly asking
7 TCL for a procedure which would lead to a worldwide
8 adjudication of FRAND. TCL has consistently refused to
9 commit to an adjudication of the worldwide dispute and
10 whether Ericsson's worldwide offers have complied with
11 FRAND.

12 What they tell us is -- and, again, they're
13 the master of their claim in California, or at least they
14 purport to be. But what they tell us is -- so far
15 they've said, "Well, it should be the United States.
16 Maybe you add France to that." We recently got a letter
17 suggesting France should be added to the mix. But
18 they've never committed to do it on a worldwide basis.

19 So, as a result, here's where we are. There's
20 no dispute we have a current ripe dispute with TCL on a
21 worldwide basis. There is litigation in six other
22 countries besides the U.S. TCL is pursuing and selling
23 handsets royalty-free across the world.

24 The declaratory judgment that has been filed
25 in California is not necessarily going to resolve the

1 entire dispute, and Judge Selna -- in fact, we had this
2 discussion with Judge Selna; and he said at a hearing --
3 and this is in the record that we put before you -- he
4 doesn't know if he's going to resolve on a worldwide
5 basis this dispute. And of course courts have discretion
6 in a declaratory judgment context about what they're
7 going to do.

09:25AM

8 THE COURT: Doesn't that suggest that he
9 considers that it's before him?

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10 MR. STEVENSON: There is a declaratory
11 judgment that is before him. That is certainly the case.
12 But the real question becomes where are we left if
13 Judge Selna decides, based on TCL's urgings, that he is
14 only going to resolve the United States or the United
15 States plus France? We haven't gotten our dispute
16 resolved; and then we are three years down the road, two
17 years down the road and we have no resolution of the
18 worldwide licensing dispute.

09:26AM

19 THE COURT: The claims that you're bringing in
20 this court would include the U.S. and whatever other
21 countries may get resolved in California, wouldn't they?

09:26AM

22 MR. STEVENSON: The patent claims that we're
23 bringing won't get resolved in California. So, we have
24 the --

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25 THE COURT: At this point I'm just talking

1 about FRAND.

2 MR. STEVENSON: Right. Okay. Limited to
3 FRAND, there is a possibility and we're going to ask that
4 that happens, but we don't know that it will. And my
09:27AM 5 point to your Honor is until there is a commitment from
6 TCL -- because really they hold the keys here until TCL
7 commits and says, "That's right. What we said we'd be
8 bound in California, we meant, we'll be bound. At the
9 conclusion of that litigation with whatever the rate is,
09:27AM 10 we'll sign a license agreement with Ericsson and we'll
11 start writing them a royalty check in accordance with
12 whatever the adjudicated terms are and that should be
13 worldwide." If TCL will commit to that, we don't need to
14 go forward any further with this case in Texas on FRAND.

09:27AM 15 But until that commitment is made, then what
16 TCL is asking to have happen in California is a subset
17 and a mere subset of the dispute before your Honor which
18 is where Ericsson is asking for a worldwide determination
19 of whether its global licensing offer was FRAND or not
09:28AM 20 and is agreeing to be bound by your Honor's result. So,
21 that's the critical issue.

22 Judge Selna has something -- at least as TCL
23 has positioned it and as TCL has self-interpreted its
24 agreement to be bound -- that is more limited than what
09:28AM 25 you have and TCL can cure that by agreeing to a worldwide

1 adjudication, but until they do that, your Honor still
2 has a claim that can and should go forward because
3 there's no assurance that Judge Selna will make the
4 adjudication we're asking be made and there's a ripe case
5 of controversy.

09:28AM

6 THE COURT: All right.

7 MR. STEVENSON: And let me tell you, judge. I
8 have been talking a lot about worldwide versus U.S.; and
9 one question that may be in your mind is, "Well, why is
10 worldwide adjudication so important for Ericsson as
11 opposed to just getting the U.S. adjudicated?" And
12 here's really the problem in this case and this is why
13 we're here and it's why we're here in your court.

09:28AM

14 Ericsson has been contributing its inventions to the ETSI
15 standards setting organization for decades. Spends about
16 \$5 billion on research and development every year, has
17 thousands of patents. It has hundreds of licensees --
18 hundreds of licenses for its standard essential patents
19 and we've offered TCL terms very similar to what its
20 competitors who have signed licenses with Ericsson have
21 taken and they just refuse to sign and it -- Ericsson
22 needs a remedy. It needs to be able to get a licensing
23 agreement with TCL.

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24 The hope for worldwide adjudication is that
25 Ericsson can get one adjudication by a neutral, a

09:29AM

1 court -- we're even willing to go to an arbitrator and
2 have an adjudication of what is a fair and reasonable
3 rate and other terms -- be bound by it, and we'll sign an
4 agreement.

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5 But what TCL is suggesting, by resisting the
6 worldwide single adjudication, is that we go country by
7 country; and if Ericsson has to go country by country to
8 establish infringement, to establish FRAND, to get a
9 different rate set, essentially the idea is Ericsson may
10 run out of steam before TCL runs out of cash and finance.

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11 It takes a long time to file litigation in different
12 countries, to go through lawsuits, to wait for trials, to
13 go through appeals. And the point is that if a company
14 like Ericsson with a worldwide portfolio has to go

09:30AM

15 country by country to get full value for its
16 contributions to the standards from a company who's
17 selling handsets royalty-free, how does Ericsson ever get
18 full value unless it can get a worldwide adjudication?
19 And that's why we're here, and that's why this is

09:31AM

20 important to us.

21 THE COURT: Do you have precedent for U.S.
22 courts having worldwide jurisdiction? In other words,
23 are there other cases where parties have sought a
24 worldwide adjudication of FRAND and been successful?

09:31AM

25 MR. STEVENSON: Yes. This has come up before

1 for Ericsson in litigation against Samsung. That was in
2 the ITC. It didn't lead to an actual published decision,
3 but both sides in the ITC presented their FRAND rates and
4 their FRAND terms on a portfolio-wide basis. That
5 happened recently with IDC in the ITC, and I can get you
6 the cite for that. There is an opinion from Judge Essex
7 on that. There have been other cases -- further FRAND
8 cases on 802.11 I believe that involved U.S. patents.

09:31AM

9 But further to your question, your Honor, it's
10 certainly the case that although patents are country by
11 country in nature -- in other words, a U.S. court can't
12 handle a patent infringement claim on a French patent,
13 for instance -- the ETSI FRAND commitment is different.

09:32AM

14 It's contractual in nature. So, for instance, when
15 Ericsson commits to ETSI that it will offer -- and that's
16 a standards setting group -- that it will offer licenses
17 on fair, reasonable, nondiscriminatory terms, that forms
18 a contract between Ericsson and ETSI to which the
19 industry is a third-party beneficiary; and the concept
20 is -- and it's really not remarkable for federal

09:32AM

21 courts -- is that when you have a contract, that can be
22 adjudicated by a federal court in the United States even
23 though performance under the contract might involve other
24 countries. That happens all the time.

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25 And, in fact, in this case the performance

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1 would be the contract between Ericsson and TCL in which
2 Ericsson would provide a license for its worldwide
3 portfolio and TCL would pay money. That can be
4 adjudicated in the United States by a United States court
5 because it's really just a contract. So, your Honor
6 would be adjudicating whether Ericsson has breached an
7 obligation, a contractual obligation that has United
8 States as well as foreign ramifications.

09:33AM

9 THE COURT: Well, that contract does not
10 exist, right?

11 MR. STEVENSON: It does exist. Yes, it does.
12 In fact, I'll show you the contract right now.

13 THE COURT: Okay.

09:33AM

14 MR. STEVENSON: That's basically the contract
15 (indicating).

09:33AM

16 And the way it works is this, your Honor.
17 When -- so, in the standard setting organizations, many
18 companies attend; and they basically show up with their
19 inventions. They contribute them, and then the best
20 inventions get voted into the standards. But what the
21 standard setting organizations do is they have what are
22 called "declarations," and the reason they do this is
23 they want to make sure that licenses are available to
24 people who practice standards as part of voting them in.

09:34AM

25 And this is a declaration that Ericsson signed and in

1 fact most of the other -- or virtually all of the other
2 companies involved in the standard setting organization
3 signed. And Ericsson has submitted this declaration; and
4 it basically says (reading) to the extent the IPRs, or
09:34AM 5 the patents, disclosed in the attached information
6 statement are or become and remain essential in respect
7 to the ETSI work item, standard specification identified
8 in the attached IPR information statement, the affiliates
9 are prepared to grant irrevocable licenses on terms and
09:34AM 10 conditions which are in accordance to 6.1. And 6.1
11 basically says fair, reasonable, and nondiscriminatory.
12 This is the contract, and Ericsson has entered into it
13 with ETSI.

14 And then as patents are identified that are or
09:35AM 15 may become essential, Ericsson from time to time puts an
16 annex out, you know, with the lists of patents and has
17 declared thousands of patents under this and that's the
18 contract that Ericsson has with ETSI and it's in force
19 today.

09:35AM 20 THE COURT: So, what you're saying is that the
21 declaratory judgment action is to seek a declaration that
22 Ericsson has not violated its obligation under its
23 agreement with ETSI or whatever the entity is.

24 MR. STEVENSON: That's exactly correct.

09:35AM 25 THE COURT: And that issue, that declaration,

1 is being sought in California?

2 MR. STEVENSON: Not by us.

3 THE COURT: No, but by TCL. TCL is seeking a
4 declaration that you violated that.

09:36AM

5 MR. STEVENSON: As to some limited geographic
6 coverage, yes.

7 THE COURT: Does it -- but you say its
8 pleadings don't indicate that there's a limited
9 geographic coverage.

09:36AM

10 MR. STEVENSON: It pled generally, but then
11 their subsequent conduct and letters indicate it is less
12 than worldwide. And of course Mr. Korniczky can correct
13 me. If they've willing to have a worldwide adjudication,
14 I'm sure they'll be happy to tell us that; and that may
15 end things early.

09:36AM

16 THE COURT: And if there is an adjudication of
17 that declaration without any geographic limitation, why
18 wouldn't it apply worldwide?

19 MR. STEVENSON: That's exactly the question.

09:36AM

20 What TCL is saying is "We want the California court to
21 adjudicate what Ericsson's rate should be under this
22 contract, but we just want to be bound for" -- I'm going
23 to put an "X" here. I think it's the U.S., I think it's
24 France maybe plus the U.S. based on the letter we just

09:37AM

25 got from --

1 THE COURT: What does it matter what they say
2 they want to be bound by? If the court adjudicates it
3 without any geographic limitation in California, how is
4 that different than the court adjudicating it here
5 without any geographic limitation?

09:37AM

6 MR. STEVENSON: Here's why. When Ericsson
7 makes a license offer -- and we've made license offers to
8 TCL -- we've made them on a worldwide basis. Basically
9 the license is TCL pays X percent of the price of a
10 handset to Ericsson for any sales it makes around the
11 world -- okay -- and is licensed to the entire Ericsson
12 worldwide portfolio. And that's the same agreement, by
13 the way, that virtually every other licensee has with
14 Ericsson. That's how Ericsson and all the other

09:37AM

15 companies who license patents in this space do business.
16 That's just what it is. That rate is what I'll call a
17 "worldwide blended rate." Right? So, the rate for the
18 world is covering, on a blended basis, countries where
19 Ericsson has a lot of patents, a medium amount of
20 patents, or a small amount of patents; and it all blends
21 together.

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22 If, on the other hand, we say, well, what's
23 the adjudication of just the U.S., to take an example,
24 does it adjudicate the same question -- because I think
25 that's what your Honor's question might have been. Are

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1 we just getting to the same point? The U.S., if you look
2 at that as a standalone, is completely different because
3 Ericsson happens to be stronger in the U.S. It has more
4 patents in the U.S. than the aggregate of the world. So,
5 we might determine a U.S. rate; and TCL may say we're
6 bound by a U.S. rate, "We'll take a U.S. license." But
7 that hasn't resolved the question of whether Ericsson's
8 offers and whether Ericsson's going forward FRAND rates
9 for the rest of the world are truly FRAND. Hasn't done
10 anything to that question. And then what TCL can say is,
11 "Well, you know, we sell handsets all around the
12 world" -- and, in fact, you know, they're biggest I think
13 in China and in eastern Europe, Russia. They have a
14 small amount of sales in the U.S. They can say, "Well,
15 fine. We'll take the U.S. license and whatever the U.S.
16 rate is and, you know, Ericsson, if you want to do
17 something in other countries, so be it. We're not going
18 to pay you." And that's the problem. That's the
19 country-by-country problem.

20 That's why we're here seeking from your Honor
21 a worldwide adjudication. And the court has the power to
22 do that and is not in conflict with the first-filed rule
23 because the adjudication here of worldwide is a
24 completely different animal than just adjudicating a
25 specific country or countries on a more limited basis.

1 It's just a different -- and the way these cases get
2 tried is the patent owner comes into court with all its
3 license agreements and we -- we're going to produce and
4 we're going to move into evidence all of Ericsson's
5 licenses and we'll provide economic analyses of what the
6 terms are, what the aggregate rates are, what TCL's
7 closest competitors are paying, how those agreements are
8 structured, and we'll show you that the -- the offer that
9 we have on the table to TCL and what our reference rates
10 are and then your Honor can decide or the jury can decide
11 whether what we are offering is indeed fair, reasonable,
12 and nondiscriminatory. In other words, if we offered TCL
13 and are we offering TCL a deal that's within the range of
14 what others are paying.

15 THE COURT: Well, let me just understand this
16 from a bottom-line standpoint. You can't make TCL take a
17 license even if you win your FRAND case, right?

18 MR. STEVENSON: Absent agreement to be bound,
19 correct.

20 THE COURT: Well, even if they -- all right.
21 I mean, "absent agreement" means you can't force them.

22 MR. STEVENSON: Well, they've agreed in
23 California to be bound to something; but if we put that
24 aside, you're right. I can't --

25 THE COURT: Even if they're bound, they don't

1 have to take a license. It's just if they don't take a
2 license, they're exposed to infringement claims, right?

3 MR. STEVENSON: No, because I think if you're
4 saying -- if TCL goes into court in California and says,
09:41AM 5 "Judge, you're not issuing an advisory opinion. Go ahead
6 and determine FRAND. We agree to be bound" and then
7 being bound means something other than paying the
8 adjudicated rate to Ericsson, they haven't agreed to be
9 bound to anything. That's just operation of law.

09:41AM 10 THE COURT: I mean, agreement, I -- normally
11 the courts can function absent agreement. We can
12 exercise authority over people who don't agree to
13 anything.

14 MR. STEVENSON: Right.

09:41AM 15 THE COURT: And FRAND is a defense to an
16 infringement action, is it not, that -- if they're saying
17 you didn't offer a license on a fair, reasonable, and --
18 whatever the other --

19 MR. STEVENSON: Nondiscriminatory.

09:42AM 20 THE COURT: -- nondiscriminatory basis.

21 MR. STEVENSON: It's actually not a defense
22 *per se*. It's not like invalidity. It's not actually
23 even a defense of license. What TCL is saying -- for
24 instance, if we sue TCL for infringement -- okay -- and
09:42AM 25 they say, "Oh, wait a second. Ericsson, you breach

1 FRAND. We want an adjudication of what the FRAND rate
2 is," that doesn't result in a license and therefore a
3 defense unless they actually take the accepted rate.

4 And, in fact, there's a very interesting case.

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5 It was a case between -- we cited to it in our briefs --

6 between Apple and Motorola. It was up in the Western

7 District of Wisconsin. That was a case where Motorola

8 was accusing Apple of infringement of its standard

9 essential patents and Apple filed a declaratory judgment

09:42AM

10 of breach of FRAND up in -- or actually not a declaratory

11 judgment but a breach of FRAND case up in the Western

12 District of Wisconsin. Apple agreed to be bound, and

13 then at the pretrial conference the judge said -- Judge

14 Barbara Crabb said, "Now, I understand at the conclusion

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15 of this, whatever rate I set, the parties are going to

16 enter into a license."

17 And Apple stood up and said, "Well, we're only

18 going to enter into the license if the rate you set is

19 less than a dollar a phone."

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20 And she stopped everything and dismissed the

21 case because it would just be an advisory opinion.

22 Judge Davis did something very similar. We

23 had a case for Ericsson over 802.11 against D-Link,

24 Intel, and five other defendants in Tyler two years ago;

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25 and in that case the same thing -- and Judge Davis wrote

1 an opinion on it -- the same thing came up where the
2 defendants wanted a FRAND adjudication. We said, "Well,
3 they've got to be bound by it." They refused to be bound
4 any further than the United States, and Judge Davis
09:44AM 5 declined to issue a FRAND adjudication. He basically
6 said, "I'm not going to set a rate." What he determined
7 is that Ericsson had not violated its FRAND obligation --
8 so, that was basically a thumbs-up/thumbs-down yes or
9 no -- but he refused to say, "Here's what the rate ought
09:44AM 10 to be on going-forward basis" because the defendants
11 hadn't agreed to be bound.

12 So, the answer to your Honor's question is it
13 a defense, it's really not a defense. It's a breach of
14 contract that can then lead to a license and the license
09:44AM 15 would be the defense.

16 THE COURT: So, how are you going to get TCL
17 to agree to be bound worldwide here?

18 MR. STEVENSON: That's exactly the question.
19 Here's how we do it.

09:44AM 20 THE COURT: Okay.

21 MR. STEVENSON: In this case we're going to
22 ask your Honor to establish that Ericsson has not
23 violated FRAND in its rate offer and other term offer to
24 TCL and then if your Honor determines there's been no
09:44AM 25 breach there or even if your Honor determines that some

1 of the terms are not in compliance with FRAND and reforms
2 them, Ericsson will offer those terms to TCL and we'll
3 hold that offer open for a reasonable period of time. If
4 TCL takes it, it ends the worldwide dispute. If TCL
5 doesn't take it, then we're asking your Honor, consistent
6 with what other courts have done, to hold that they're an
7 unwilling licensee.

09:45AM

8 A holding of unwilling licensee has
9 ramifications within the patent law allowing certain
10 remedies to be requested, and we can request those
11 remedies on a worldwide basis. Thus, it's our hope that
12 the finding of an unwilling licensee and the -- by a
13 court on a worldwide -- on a license offer that is
14 worldwide in scope will thus make TCL realize that its
15 exposed in the United States and other countries to
16 infringement cases and it will take the deal that's been
17 adjudicated fair, reasonable, and nondiscriminatory.

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18 THE COURT: Now, what indication do you have
19 that that's not available in California, in the
20 California action?

09:46AM

21 MR. STEVENSON: Here's the indication so far.
22 And I'll just recap the bidding for your Honor. We
23 originally went to California; and we told Judge Selna,
24 "You should follow what Judge Crabb did and what Judge
25 Davis have done." In other words, if TCL won't be bound,

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1 they can't be in court asking for a rate.

2 TCL then stood up and said, "Judge, when we
3 filed this case, we intended to be bound. We are bound."

4 And the judge said, "All right. You're bound.

09:46AM

5 I'm not going to dismiss your FRAND claims. Let's go
6 ahead and move on." And judge entered an order to that
7 effect noting they agreed to be bound.

8 We then went to TCL and said, "All right.

9 We've got to work on scheduling, and we've got to work on

09:46AM

10 a Rule 26 proposal. Let's get down to work. Our
11 understanding now is that, TCL, you've agreed to be bound
12 and what that means is the judgment in this case in

13 California is going to be a license. We understand, TCL,
14 though" -- and they made this point both at the hearing

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15 and most importantly in the correspondence I read to you
16 and showed you. TCL came back and said, "Well, wait a
17 second. We don't agree to an adjudication of the

18 worldwide rate." We're not clear what we're going to
19 actually put out there, and we're not really sure what

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20 Judge Selna is going to do either. He indicated at the
21 hearing he may not end up adjudicating a worldwide rate.

22 And we put that part of what Judge Selna said in the
23 transcript in the record, that basically Judge Selna
24 said, "I don't know what I'm going to do."

09:47AM

25 THE COURT: Well, you agree that with respect

1 to the U.S., that the FRAND claims were first filed in
2 California.

3 MR. STEVENSON: Yes, I do.

09:47AM

4 THE COURT: And Judge Selna has not at this
5 point indicated that that's not worldwide. He's just
6 said he's not certain.

7 MR. STEVENSON: That's correct.

8 THE COURT: Do you have a vehicle to present
9 to him that issue for him to decide whether or not --

09:48AM

10 MR. STEVENSON: Yes.

11 THE COURT: -- it is?

12 MR. STEVENSON: We have a scheduling
13 conference coming up in a couple weeks. I think it's on
14 the 26th of the month, and we intend to raise this issue
15 then and there.

09:48AM

16 THE COURT: Well, if you get a ruling from
17 Judge Selna that the action pending before him does not
18 seek the full extent of the relief that you're seeking
19 here, then I think your argument would be much more
20 persuasive that you should be allowed to go forward with
21 that additional relief here. But where all you've got is
22 the judge indicating that he hasn't decided that yet,
23 it -- it's difficult for me to say that we're not
24 overlapping him.

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25 MR. STEVENSON: Well, and I agree with your

1 Honor; and the issue there becomes if Judge Selna says,
2 "Well, TCL is objecting" -- and remember, your Honor, TCL
3 is the one who is agreeing to be bound. They're the
4 master of their own agreement. If TCL goes to Judge
5 Selna and says, "No, we agree to worldwide adjudication.
6 Notwithstanding what we've written in our letters, we
7 have been down to Texas. We've had a hearing there. We
8 agree it will be worldwide" and that ends --

9 THE COURT: Well, what you've showed me in the
10 letter, it said that they have not -- it was
11 noncommittal.

12 MR. STEVENSON: And we've had three or four
13 noncommittal telephone calls and exchanges of scheduling
14 proposals since then. It's all been very noncommittal,
15 your Honor; and that's our problem, frankly. If TCL is
16 avoiding essentially a resolution of a dispute that's
17 going to get it into paying worldwide royalties, then
18 being noncommittal is the best strategy because what they
19 can do is ride the California case down as long as they
20 can, hope this case goes away in the meantime, and then
21 when they get to a point in the California case, they can
22 say, "Well, we just wanted U.S. all along, judge, and you
23 really don't have the power to do anything about that
24 because that's all we're agreeing to be bound by and
25 that's what we meant all along." So, the troublesome

1 thing, your Honor, is the failure to commit and answer
2 the question.

3 THE COURT: Well, at this point it appears
4 that you have not put TCL in a position where they have
5 to make a definitive commitment one way or the other in
6 front of Judge Selna.

7 MR. STEVENSON: I was hoping that would also
8 happen today in front of your Honor because --

9 THE COURT: Well, it might. We'll see. But
10 I, in any event -- all right. I understand where things
11 are on FRAND. So, that leaves the -- just your patent
12 infringement claim.

13 Tell me your understanding of the extent to
14 which Judge Selna has taken a position on whether or not
15 the declaratory judgment action or claim by TCL about the
16 Ericsson patents relates back to the filing of their case
17 in the Central District.

18 MR. STEVENSON: I'm not a hundred percent sure
19 that he has taken a position on that. He said the
20 California case was first filed, but what's interesting
21 is TCL couldn't have possibly anticipated these patents
22 because we didn't assert them against TCL until we filed
23 this case. So, metaphysically can TCL really seek a
24 declaratory judgment of non-infringement before we have
25 even asserted the patents against them? I don't think

1 they can. I don't think there's any question but the
2 first time we -- these patents were asserted it was in
3 this lawsuit on the essential patents.

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4 THE COURT: Relation back is a doctrine that
5 often encompasses things that didn't occur until after
6 the filing of the initial complaint. There can be claims
7 or additional injuries that occur after the filing that a
8 court will find relate back. So, I don't think that the
9 fact that it could not have been anticipated at the time

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10 they filed the action in the Central District is
11 definitive on that; but I -- really all I'm asking is
12 your understanding as to what Judge Selna has decided on
13 that issue.

09:53AM

14 MR. STEVENSON: I think a fair reading of the
15 opinion is he decided that the declaratory judgment of
16 non-infringement was what he called the "hypothetical
17 coercive claim." And the analysis was when TCL filed its
18 original declaratory judgment -- excuse me -- its
19 original case for breach of FRAND and most particularly

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20 they had a claim for declaratory judgment asking
21 essentially what the rate ought to be, the question is is
22 that potentially a claim that triggers the hypothetical
23 coercive claim of patent infringement. Okay?

09:53AM

24 He said it was and therefore the amendment to
25 add declaratory judgment relates back -- I don't know if

1 you use the word "relates back," but at least creates
2 subject matter jurisdiction as of filing. All right?

3 But the real question then, becomes for
4 purposes of the first-filed rule that we're talking
5 about, does that actually make these patents first
6 filed -- the DJ first filed in California or not on these
7 two patents? And my point is I don't see how it can be
8 because these patents weren't even asserted until we
9 asserted them out in East Texas. And I've heard your

10 Honor's position that this may be, you know, part of a
11 legal fiction that gets created as part of the relation
12 back rule; and I don't know that Judge Selna really got
13 into it in this much detail. In fact, I know he didn't
14 get into it in this much detail. So, I don't think we

15 have guidance from him on what he's thinking in that
16 regard.

17 THE COURT: I'm looking specifically at the
18 portion of his September 30 ruling that's on pages --
19 looks like 22 -- 21, 22, and 23; and I -- the reason I'm
20 asking you -- obviously I can read it as well, but you
21 have a better understanding of what was before him at
22 that time. But he addresses specifically -- in the
23 middle of page 23, he says, "The court concludes that the
24 claims asserted in the SAC" -- which I assume is "second
25 amended complaint" -- "related to the claims asserted in

1 the original complaint are sufficiently related to
2 trigger the relation back doctrine."

09:56AM

3 The claims in the second amended complaint,
4 are those the ones that relate to Ericsson's claim of
5 patent infringement?

6 MR. STEVENSON: Yes, they are.

09:56AM

7 THE COURT: Well, do you believe that he did
8 not find that those patent infringement claims relate
9 back to the filing of the original complaint in
10 California?

11 MR. STEVENSON: They were a declaratory
12 judgment. So, I would think he would -- that's a fair
13 reading of what he found, yes.

09:56AM

14 THE COURT: All right. I know at the time of
15 the briefing in this motion -- it was just before
16 Judge Selna issued that September 30 ruling -- there was
17 a reference in Ericsson's briefing to interlocutory
18 review. I know that Judge Selna denied a certification
19 of these issues for interlocutory review under I guess
20 1291. Is there anything else pending or contemplated by
21 Ericsson to seek review of that either by interlocutory
22 appeal or mandamus?

09:57AM

23 MR. STEVENSON: We don't plan a mandamus at
24 this juncture, and there's really nothing other than that
25 we could do.

09:57AM

1 THE COURT: Okay.

2 MR. STEVENSON: And, your Honor, further to
3 your question about first filed and relation back. Just
4 so we're very clear, the only claims that were at issue
09:57AM 5 that Judge Selna would have been looking at in this
6 second amended complaint are the two Ericsson essential
7 patents as well as the TCL -- the two TCL patents they
8 filed on. The five implementation patents that we have
9 sought leave to add by amendment were after -- have
09:57AM 10 nothing to do with this. They're a completely different
11 story.

12 THE COURT: All right. Thank you.

13 Let me hear from the defendants now.

14 MR. KORNICZKY: Good morning, your Honor. My
09:58AM 15 name is Steve Korniczky. And like McKool Smith, I also
16 represent TCL in the California action. I would like to
17 just jump right to the last point that your Honor had
18 addressed with respect to the Ericsson patents and
19 whether they were considered by Judge Selna because in
09:59AM 20 fact he says, "Ericsson argues that TCL's declaratory
21 claims for invalidity and non-infringement of Ericsson's
22 '556 and '506 patents should be dismissed pursuant to
23 Rule 13(a) and/or the first-to-file rule." So, the very
24 issue that they're arguing here before your Honor was
09:59AM 25 addressed by Judge Selna. They said, well, the first --

1 these patents were first filed here in this court. And
2 then as your Honor had pointed out, the language
3 basically states that those claims relate back to the
4 original complaint in California.

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5 So, the way the court -- any court looks at
6 the first-to-file rule, it's not based upon a
7 claim-by-claim basis and when was this claim added and
8 when was that claim added. They look at the case and
9 whether those issues relate back to the original

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10 complaint and are the parties -- are the issues
11 substantially related or substantially the same.

12 THE COURT: I understand that there is some
13 divided authority on that, but clearly Judge Selna felt
14 that the bulk of the authority was in the way he ruled.

10:00AM

15 So, I understand.

16 MR. KORNICZKY: That's correct, your Honor.

17 There are a lot of issues I think that were
18 somewhat misrepresented by plaintiffs' argument. First
19 off, let me jump right to the issue of this -- what

10:00AM

20 Judge Selna stated in terms of the scope of the FRAND
21 action in California. He did not say he's not going to
22 determine whether there's a worldwide license at issue or
23 whether it's just a California or whether it's just a
24 United States issue, nor did TCL take that position. The

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25 point that Judge Selna was making is that on a motion to

1 dismiss, he wasn't prepared to decide the merits of the
2 case and what the scope of any issue was going to be in
3 the California action.

4 We never said, "Oh, this is only a U.S. issue"
10:01AM 5 or "This is absolutely a worldwide issue." There are so
6 many issues that are at -- that are going to need to be
7 addressed in the California FRAND action. For example,
8 one of the issues was is the rate the same in every
9 country or is it one rate worldwide.

10:01AM 10 So, for example, Mr. Stevenson said that we
11 have a -- Ericsson has a lot of patents or SEP patents in
12 the United States. Well, what about the countries where
13 they don't have any patents? Does that mean that you
14 apply some sort of FRAND rate that would have to be paid
10:01AM 15 for phones sold in those countries?

16 So, those are the issues; and Judge Selna
17 said, "I'm not prepared to figure out at this stage how
18 we're going to resolve this dispute." And what we
19 said --

10:02AM 20 THE COURT: Well, what is TCL's position on
21 whether or not it will be bound worldwide or simply in
22 the United States?

23 MR. KORNICZKY: Our position is we will be
24 bound by whatever Judge Selna decides he's going to
10:02AM 25 decide. If he's willing to decide a worldwide issue,

1 we're going to be bound by that. If he says, "It's not
2 my authority to decide what we do in France or Germany or
3 Brazil," then we're not going to try to force him to make
4 that call or to do something he doesn't feel he's
5 permitted to do. So, our position is if Judge Selna will
6 decide this issue worldwide, we're going to be bound by
7 it.

8 THE COURT: Okay.

9 MR. KORNICZKY: Okay. The issue as to whether
10 the --

11 THE COURT: Let me ask you one follow-up to
12 that.

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1 decide that he's got that power.

2 MR. KORNICZKY: I think -- okay. I think
3 we're oversimplifying the issue because one of the issues
4 is is it one rate -- Mr. Stevenson said they have a
5 blended rate -- versus are there different rates per
6 country. So, we might argue that position.

7 Another issue that we're arguing is --

8 THE COURT: Are you going to argue that
9 position?

10 MR. KORNICZKY: Sorry?

11 THE COURT: Are you going to argue that it
12 should be country-by-country rate?

13 MR. KORNICZKY: Your Honor, honestly I don't
14 know. I don't know what our position is in that respect.

15 THE COURT: You have filed this action.

16 MR. KORNICZKY: What we have asked for, your
17 Honor -- in order to determine what TCL is going to
18 argue, we also need to see the discovery.

19 For example, Ericsson claims that they have
20 entered into a hundred licenses around the world for
21 these standard essential patents. We have been trying to
22 get those for the last six months, and they've refused to
23 produce them. Okay? I think we've got five agreements.

24 We don't know what's in that. We don't know if what the
25 market does is a worldwide license. We don't know if the

1 terms differ for companies out of China like our company.
2 For example, as far as we know, TCL is the only Chinese
3 handset manufacturer that's been paying licenses to
4 Ericsson.

10:04AM

5 Mr. Stevenson said we have been working
6 royalty-free all these years. No, we haven't. For seven
7 years we have been paying royalty rates, and it was only
8 two days before that license was about to expire that we
9 filed a lawsuit in California. So, this issue as to

10:05AM

10 whether it's a worldwide rate or if it's a worldwide
11 license or whether the terms will differ on a worldwide
12 basis in our view goes to the merits of the case. And we
13 haven't seen -- we have to argue what's fair and
14 reasonable; and in order to argue that, we've got to

10:05AM

15 understand what's been done in the past.

16 THE COURT: Let me ask you a follow-up
17 question then, Mr. Korniczky. I understand your position
18 about needing to see the evidence. Do you intend to take
19 the position -- if you determine that it should be a

10:05AM

20 country-by-country license or rate based on the
21 evidence -- if you determine based on the evidence that
22 the rate should be country by country, do you intend to
23 argue that Judge Selna does not have the authority to
24 make the decision about what those rates should be around
25 the world?

10:06AM

1 MR. KORNICZKY: Not at this time, your Honor.

2 THE COURT: Okay.

3 MR. KORNICZKY: Okay. One other point. You

4 know, Mr. Stevenson says that we want to resolve this

10:06AM

5 issue country by country. Ericsson has sued TCL in seven

6 or eight different countries -- okay -- based upon these

7 SEP patents. They're not asking any of those countries

8 to resolve the FRAND issue. It was TCL that filed this

9 action and said, "Look, we're asking the court to figure

10:06AM

10 out what's the FRAND rate, what is it that we're supposed

11 to be paying." And we've told Judge Selna on the record

12 we will be bound by it. "You tell us what we have to

13 pay. If we have to pay it, we're going to pay it."

14 THE COURT: And if Judge Selna decides that it

10:07AM

15 should be a worldwide blended rate, then you will be

16 bound by that?

17 MR. KORNICZKY: Absolutely, your Honor.

18 THE COURT: All right. Let me ask you to

19 address for a moment -- I know you have been talking

10:07AM

20 about the two essential patents that were addressed in

21 the second amended complaint in California. What about

22 the five implementation patents that Ericsson is seeking

23 to assert in the fourth amended complaint here?

24 MR. KORNICZKY: Your Honor, those five patents

10:07AM

25 have not been made a part of this complaint in this case

1 at this time. Okay. We had filed a Motion to Transfer.
2 A lot of permutations and motion filing and procedural
3 gamesmanship has taken place, which we can get into; but
4 to jump to your point specifically to these five patents,
5 if -- I'm not sure what Ericsson's position is because
6 Mr. Stevenson just said that these are not related to
7 those patents, these are not related to those SEPs.
8 Well, if they're not related, then why are you bringing
9 them in this particular case?

10 If they are related, then shouldn't we be
11 allowing Judge Selna to decide whether those patents
12 should be added to the case in California? In other
13 words, if this case is transferred, isn't that a decision
14 that we would want Judge Selna to make? I mean, if the
15 shoe is on the other foot and a case is coming to this
16 court and somebody wants to make it more complicated,
17 the -- you know, the court's scheduling process, the
18 court's patent local rules, for example, on identifying
19 terms and conducting -- exchanging infringement and
20 invalidity contentions should be something that goes to
21 the case management and something that the presiding
22 judge ought to be able to decide. So, if the case is
23 going to be transferred, I think our position is maybe we
24 ought to let Judge Selna decide the issue.

25 If the case is staying here, they've already

1 said, "Well, these patents aren't related." So, then why
2 would they be in this case?

3 If they are added to this case, then TCL is
4 going to be prejudiced because we're expected to -- I
5 guess we had -- what -- 140 days to put together
6 invalidity contentions for the first set of patents. Now
7 we've got about 40 days left in order to do 5 new patents
8 and conduct prior art searches, figure out what terms are
9 going to be argued. I think there's over a hundred

10 claims that Ericsson is suggesting are at issue in this
11 case. Well, I don't know how we get that done. If we
12 change the schedule and give us a little bit more time to
13 get that done, well, then that would argue against why
14 are you adding that to this case. They can be litigated
15 in a different -- you know, a different case, different
16 patent dispute, a separate and distinct matter. They're
17 not going to be prejudiced by that.

18 Second reason --

19 THE COURT: Well, if those are filed in a
20 separate action here, do you have a basis to contend that
21 those would be, in effect, covered by the California
22 action, that the California action would be first filed
23 as to that?

24 MR. KORNICZKY: I don't -- I don't think so,
25 your Honor. I should have thought about that before

1 standing up here. But that said, I guess the way I would
2 look at these patents is they're not standard essential
3 patents; and, so, if we were to put those in with this
4 case or the California case, what we're asking the jury
5 to do is going to be pretty confusing because if you look
6 at the damages issue in particular -- the *Motorola versus*
7 *Microsoft* case says that the way we determine the royalty
8 rate in a FRAND action is based upon a modified
9 Georgia-Pacific factor. So, they just use some of the 15
10 factors. So, you would have the SEP patents being looked
11 at in that respect. You would have the non-SEP patents
12 looking at the issue from the Georgia-Pacific factors and
13 expecting the jury to keep track of all of those.

14 The second thing that would be similarly
15 confusing, in my view, is the theory of infringement. My
16 understanding of the standard essential patents theory of
17 infringement is, well, if you practice the standard, then
18 you must be infringing these standard essential patents.
19 Well, then the question becomes does the jury get

20 confused with respect to these nonstandard essential
21 patents and how are they going to look at those issues.

22 So, you take ten patents. You have two
23 infringement theories and you have two damages theories
24 and in my view I guess, thinking it through up here, is
25 that you end up in a real complex trial subject to all

1 sorts of mistakes.

2 The other issue, your Honor, is from what I
3 understand Ericsson is asking the court to do is to add
4 these five patents to this case and then sever them,
10:12AM 5 transfer the related issues -- in other words, the SEP
6 patents and the FRAND issue -- to California but then
7 sever out and keep these five non-SEP patents here. And
8 there's no Motion to Sever pending.

9 So, again, I feel like there's a conflict here
10:12AM 10 because they're arguing they should be added to this
11 theoretically because they're related but you should
12 sever them out because theoretically they're not related.
13 And that just doesn't make sense.

14 THE COURT: Although you have indicated you
10:13AM 15 don't have any basis to feel that they should be part of
16 the California action either.

17 MR. KORNICZKY: I do not. I do not think they
18 should be part of this case; nor do I feel they should be
19 part of the California case, your Honor.

10:13AM 20 THE COURT: Okay. I understand your position.

21 MR. KORNICZKY: And then one last issue again,
22 just to put a fine point on the argument. The suggestion
23 that the FRAND issue in California is different from the
24 FRAND issue here I think has no basis because effectively
10:13AM 25 what we're asking in California is for the court to find

1 that Ericsson has breached its FRAND obligation. What
2 Ericsson is asking this court to determine is that we
3 haven't breached our FRAND obligation, we have complied
4 with it.

10:13AM

5 The idea that Mr. Stevenson said, "Well, we're
6 asking this court to determine that TCL is an unwilling
7 licensee," they're asking for the exact same thing in
8 California. So, that's not a point to distinguish the
9 claims.

10:14AM

10 THE COURT: And on your action in California,
11 is there any geographic limitation? In other words,
12 you're asking the court in California to find that
13 Ericsson has not complied with its FRAND obligations
14 without any geographic limitations.

10:14AM

15 MR. KORNICZKY: That's correct, your Honor.

16 THE COURT: Okay. So, that would be worldwide
17 if the court is willing to do that.

18 MR. KORNICZKY: If the court is willing to do
19 it.

10:14AM

20 THE COURT: Okay. All right. Thank you.

21 MR. KORNICZKY: I think we have covered
22 everything, your Honor. I didn't go through the slide
23 but all the information in the slide is in our briefs and
24 we'd be happy to submit a copy of the slide to the court
25 for what we did review. Thank you, your Honor.

10:14AM

1 THE COURT: Mr. Stevenson.

2 MR. STEVENSON: May I take a few minutes just
3 to talk about where I think we are after the answers to
4 your Honor's questions by Mr. Korniczky?

10:15AM

5 THE COURT: All right.

10:15AM

6 MR. STEVENSON: So, looking back on how this
7 transpired, the agreement to be bound first came up when
8 we were in California arguing that the court should not
9 determine a rate unless TCL was willing to be bound. And
10 Judge Selna seemed receptive to that argument, at which
11 point TCL said, "We agree to be bound." And it's that
12 agreement to be bound that then moved it from an advisory
13 issue that the court may have declined to do on a
14 declaratory judgment into a sufficiently ripe dispute for
15 adjudication. So, that's why the agreement to be bound
16 is so critical.

10:15AM

10:16AM

17 Now, what I heard Mr. Korniczky saying, I
18 think, is -- in response to your questions is that the
19 Central District of California is going to adjudicate the
20 FRAND terms of Ericsson, that they're not going to
21 suggest that a worldwide adjudication is inappropriate,
22 they're going to reserve the right to assert that the
23 rates should be calculated under FRAND on a
24 country-by-country basis as opposed to blended. And
25 that's all right. They can assert, you know, that. But

10:16AM

1 as long as the result of this is a global license under
2 the terms that are adjudicated by Judge Selna to be
3 FRAND, if he's willing to do a global adjudication, I
4 think that's what we're asking for. And if that's not
10:16AM 5 going to happen in California, if my understanding is
6 wrong, that's what we're going to be asking to happen in
7 this court. And if Judge Selna is going to do that, then
8 we're happy to proceed and have our FRAND trial out
9 there. But if I've misunderstood, then I'm going to
10:17AM 10 persist in my request that this court keep the FRAND
11 adjudication here because that's what we're asking for is
12 a global license to result from adjudication.

13 THE COURT: And when is your scheduling
14 conference before Judge Selna?

10:17AM 15 MR. STEVENSON: It's on the 26th, I believe.

16 THE COURT: Of?

17 MR. STEVENSON: January.

18 THE COURT: All right. And you intend to
19 present these issues to him to --

10:17AM 20 MR. STEVENSON: I think there will be some
21 déjà vu at that hearing.

22 THE COURT: All right. And talk to me about
23 the implementation patents.

24 MR. STEVENSON: Mr. Korniczky's point was,
10:17AM 25 well, they're not related. Well, Ericsson has a number

1 of patents; and they aren't essential patents. They're
2 not governed by the FRAND commitment. As far as putting
3 them in this case -- we don't think they should be
4 transferred out to California. You know, I think in
10:18AM 5 fairness -- TCL filed in its forum of choice on its
6 patents. We think, in fairness, we should be able to
7 file in our forum of choice on our patents. And I don't
8 think the fact that TCL filed a breach of FRAND case in
9 California transforms that venue into the funnel for any
10:18AM 10 future patent disputes between the companies regardless
11 of what the patents are or where they arise.

12 We have currently on the docket a November
13 trial date. Although I'd like to keep that, I recognize
14 that adding these patents to the case and getting to a
10:18AM 15 November trial is going to be challenging. Mr. Mathews
16 has run the scheduling numbers and can speak to that if
17 your Honor is interested. It can be done. We're willing
18 to either -- if your Honor wishes just to deny leave to
19 amend, we're willing to file another action, if that's
10:19AM 20 what you prefer; or if the court wishes to sever those
21 and grant leave to amend and keep going forward, that's
22 another vehicle we could do this in. Candidly, we're
23 ambivalent; but we would like to get to trial on our
24 implementation patents at the soonest point the court
10:19AM 25 feels is reasonable and can accommodate us on the docket.

1 THE COURT: Well, where I'm leading right now
2 is to withhold action on the Motion to Transfer until
3 after you have presented your issues to Judge Selna later
4 this month.

10:19AM

5 MR. STEVENSON: Okay.

10:20AM

6 THE COURT: I do feel that since Judge Selna
7 has considered the question of whether or not the claims
8 regarding the standard essential patents relate back,
9 that this court owes deference to Judge Selna on that
10 issue. So, if he determines that the FRAND allegations
11 currently before him are -- encompass the claims that you
12 have asserted here, by indicating that worldwide versus
13 U.S. is not an issue, then I would expect that the Motion
14 to Transfer would be granted.

10:20AM

15 Which gets me to the implementation patents.
16 If you do not want them to be part of that, then the
17 simplest thing would be for you to withdraw the motion to
18 add them in. I guess I can deny it as well. If you tell
19 me that you don't object to denying it, then I'll deny
20 it. But if it's not denied or withdrawn, then it would
21 be part of the transferred action.

10:21AM

22 MR. STEVENSON: Well, at that juncture we'll
23 go ahead and withdraw it. The reason we really wanted to
24 amend to add those to this cause of action is we have a
25 trial date on the docket; and there's an attractiveness,

10:21AM

1 obviously, to having a trial date that is faster than
2 we're likely to get out in the Central District of
3 California. But if your Honor's suggestion is that if
4 there is a transfer this is all going to go across
5 together and is giving me the option to excise the
6 implementation patents from that, I will take that option
7 and excise them by withdrawing our request to add them in
8 the case.

10:21AM

9 THE COURT: Okay. Well, then I'll show that
10 the Motion to Amend that asserts the implementation
11 patents -- I think that's the fourth amended complaint.
12 I'm not positive.

10:22AM

13 MR. STEVENSON: I believe it's third and
14 fourth. I think there are two amendments.

10:22AM

15 THE COURT: All right. Then, that those
16 motions -- those two motions will be considered
17 withdrawn.

18 And I will await a notice, which I will
19 instruct you to file as soon as you have gotten any
20 indication from Judge Selna following your scheduling
21 conference. And that would include if he says, "No, I'm
22 not going to address it." Then tell me that as well.

10:22AM

23 MR. STEVENSON: Thank you, your Honor.

24 THE COURT: And I know there are --

10:22AM

25 MR. STEVENSON: Your Honor, one other thing

1 I'd like to ask your consideration of.

2 THE COURT: Okay.

3 MR. STEVENSON: With regard to our declaratory
4 judgment under the Ericsson -- excuse me -- under the TCL
5 essential patents. We've requested just to drop that.

10:23AM

6 As I've told your Honor, those claims are pending out in
7 the Central District of California. We don't have any
8 objection to going forward with TCL's patents out in the
9 Central District of California once, you know, Judge

10:23AM

10 Selna denied the Motion to Dismiss. We would like to
11 request that the court dismiss without prejudice our
12 declaratory judgment on the TCL patents of
13 non-infringement and invalidity.

14 THE COURT: All right. Let me hear from the
15 defendant.

10:23AM

16 Is there any objection to that?

17 MR. KORNICZKY: No objection to that, your
18 Honor. But I do have a question with respect to one of
19 the other points that you had raised.

10:23AM

20 THE COURT: Okay. Well, let me -- before we
21 get to your question, let me just say that then the
22 request to dismiss the counterclaim seeking declaratory
23 relief as to the TCL patents will be granted.

24 MR. KORNICZKY: That's correct, your Honor.

10:24AM

25 THE COURT: Okay. And what is your question,

1 Mr. Korniczky?

2 MR. KORNICZKY: Just to get a better
3 understanding of the -- you said that your Honor was
4 considering holding a decision on the Motion to Transfer
10:24AM 5 pending the hearing before Judge Selna later this month,
6 but the hearing that is before Judge Selna later this
7 month is a scheduling conference. So, I don't see
8 Judge Selna deciding this issue as to what the scope of
9 the -- the scope of this license or FRAND issues is going
10:25AM 10 to be because the same thing he said at the Motion to
11 Dismiss -- he said to Ericsson's counsel, "That's a fine
12 opening argument that you're making, but this is not the
13 time and place."

14 And, so, at the scheduling conference,
10:25AM 15 although we may discuss how the case ought to go forward,
16 I don't know if he's going to come out and say, "Okay.
17 Well, this is what we're going to do."

18 So, my point is we may -- your Honor may be
19 delaying a decision on the Motion to Transfer which --
10:25AM 20 does that mean we have to move forward in this case with
21 the expenses that both clients are expending, or is there
22 stay? I guess I'm trying to get a better understanding
23 of when would a decision come out and what's it depend
24 on.

10:25AM 25 THE COURT: A decision would come out promptly

1 after I learn what has transpired at that scheduling
2 conference. Are there events that will be occurring in
3 between now and then?

4 MR. KORNICZKY: The other issue, your Honor,
10:26AM 5 if this case is transferred, then what Mr. Stevenson says
6 his claim is about would also be transferred to
7 Judge Selna and those like issues would be decided in one
8 court. So, I guess -- I guess I just don't see a reason
9 to delay the transfer if there are, you know, whatever
10:26AM 10 percentage -- 85, 90, 99 percent of the case are already
11 identical.

12 See, we don't think that the FRAND cases are
13 different, your Honor. But if Mr. Stevenson is correct
14 that his FRAND action is somehow broader than the
10:26AM 15 California action, which we disagree with, then it would
16 be addressed by Judge Selna.

17 THE COURT: And I guess my thought on that,
18 Mr. Korniczky, is I just want to give Judge Selna an
19 opportunity to hear that argument and make whatever
10:27AM 20 ruling he deems appropriate. And I think that he's
21 entitled to make his ruling or indication on that, and I
22 want to give him an opportunity to do so before sending
23 this out there. If he takes the position that the claims
24 as Ericsson defines them that are currently pending here
10:27AM 25 are not before him out there, then that might have some

1 influence on the ruling.

2 But in any event, I understand your position
3 and it may or may not resolve everything, but that's just
4 a little over two weeks away. So, I just want to give
5 him that opportunity.

10:27AM

6 MR. KORNICZKY: Okay. That addresses my
7 question, your Honor. Thank you.

8 MR. FINDLAY: Your Honor, may I address the
9 question that you had about other deadlines coming up in
10 this case?

10:28AM

11 THE COURT: Yes, Mr. Findlay, you may.

12 MR. FINDLAY: Okay. I do think that we
13 have -- counsel, correct me if I'm wrong -- I think we
14 have exchanged 4-1 terms. I think 4-2 proposed

10:28AM

15 constructions are due at the end of this month. We
16 certainly would request as -- one of our motions that we
17 kind of have not talked about but was indirectly
18 discussed, we certainly would request that we have a stay
19 until the time wherein your Honor hears the report back
20 from what Judge Selna does so we can stop the bleeding on
21 both fronts, if you will.

10:28AM

22 MR. STEVENSON: Your Honor, as far as the
23 patent deadlines go, I think those are probably mooted
24 based on what has transpired today. I think all the
25 patents are either being withdrawn from the case,

10:28AM

1 dismissed from the case, or are ultimately going to go
2 over to California regardless of this geographical scope
3 issue that's just pertinent to whether the FRAND case
4 stays here.

10:29AM

5 THE COURT: So, you don't have any objection
6 then to a stay of those deadlines while this is being
7 determined?

10:29AM

8 MR. STEVENSON: I don't have any objection to
9 stay the patent deadlines. And then over the next two
10 weeks, we don't plan to do anything significant with
11 regard to discovery as to the FRAND issues; but what I
12 would like is in the event news comes back from
13 California that influences your Honor in deciding to keep
14 the worldwide FRAND adjudication, we would like to have
15 the case in a position where we can go to trial in
16 November without losing that trial setting for our FRAND
17 case.

10:29AM

18 THE COURT: Well, then what I'm going to do is
19 just say that the case will be stayed pending the receipt
20 of the notice following that scheduling conference; and
21 we'll go from there.

10:29AM

22 MR. STEVENSON: Thank you, your Honor.

23 MR. FINDLAY: Thank you, judge.

10:29AM

24 THE COURT: All right. Is there anything else
25 from your side, Mr. Stevenson?

1 MR. STEVENSON: No, nothing from us, your
2 Honor. Thank you.

3 THE COURT: All right. Mr. Findlay, anything
4 else from your side?

10:30AM

5 MR. FINDLAY: Nothing else, your Honor. Thank
6 you very much.

7 THE COURT: All right. Thank you. And we're
8 adjourned.

9 (Proceedings adjourned, 10:30 a.m.)
10
11

12 COURT REPORTER'S CERTIFICATION

13 I HEREBY CERTIFY THAT ON THIS DATE, JANUARY 8,
14 2015, THE FOREGOING IS A CORRECT TRANSCRIPT FROM THE
15 RECORD OF PROCEEDINGS.
16
17

18 /s/
19 TONYA JACKSON, RPR-CRR
20
21
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